



Dave Yost • Auditor of State



**LORAIN K-12 DIGITAL ACADEMY  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Lorain K-12 Digital Academy  
Lorain County  
2350 Pole Avenue  
Lorain, Ohio 44050

To the Board of Directors:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Lorain K-12 Digital Academy, Lorain County, Ohio (the Academy), a component unit of the Lorain City School District, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Academy's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Academy's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain K-12 Digital Academy, Lorain County, Ohio, as of June 30, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2014, on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Academy's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 28, 2014

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Years Ended June 30, 2013 and 2012*

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The discussion and analysis of the Lorain K-12 Digital Academy's (the "Academy") financial performance provides an overall review of the Academy's financial activities for the fiscal years ended June 30, 2013 and June 30, 2012. The intent of this discussion and analysis is to look at the Academy's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Academy's financial performance.

Certain comparative information between the current fiscal year and the prior fiscal year is required to be presented in the MD&A. Due to the comparative presentation within the basic financial statements, a comparison analysis between fiscal year 2012 and fiscal year 2011 is also required.

### **Financial Highlights**

Key financial highlights for the fiscal year ended June 30, 2013 are as follows:

- Net position totaled \$860,677, which is an increase of \$150,025 from fiscal year 2012.
- Operating revenues equaled \$895,975, up 94% from fiscal year 2012. Operating expenses of \$829,803 showed an increase of 99% from fiscal year 2012. Increased enrollment accounts for the increased activity in the Academy.
- Capital assets were restated in fiscal year 2012 so that the Academy could recognize salvage values for the assets. The restatement amounted to an increase of \$22,619.

### **Using this Annual Report**

This annual report consists of the MD&A, the basic financial statements and the notes to the basic financial statements. The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows.

The statement of net position and the statement of revenues, expenses and changes in net position answer the question, "How did we do financially during fiscal years 2013 and 2012?" The statement of net position includes all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most companies in the private sector. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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Table 1 provides a summary of the Academy's net position for fiscal years 2013, 2012 and 2011 as follows:

**Table 1**  
**Net Position at June 30**

	<b>2013</b>	<b>Restated 2012</b>	<b>2011</b>
<b>Assets</b>			
Current and Other Assets	\$ 859,958	\$ 696,728	\$ 572,289
Capital Assets	46,648	58,329	38,966
<b>Total Assets</b>	<b>906,606</b>	<b>755,057</b>	<b>611,255</b>
<b>Liabilities</b>			
Current Liabilities	45,929	44,405	3,937
<b>Net Position</b>			
Net investment in capital assets	46,648	58,329	38,966
Restricted for Other Purposes	37,021	86,506	29,279
Unrestricted	777,008	565,817	539,073
<b>Total Net Position</b>	<b>\$ 860,677</b>	<b>\$ 710,652</b>	<b>\$ 607,318</b>

Total assets increased \$151,549 from fiscal year 2012 to fiscal year 2013. Cash increased \$173,117 from fiscal year 2012, mainly due to an increase in enrollment. Capital assets decreased \$11,681 through depreciation expense and disposals. Liabilities consisting of accounts payable increased \$1,524 and net position increased \$150,025 over fiscal year 2012.

Total assets increased \$143,802 from fiscal year 2011 to fiscal year 2012. This increase is made up of an increase in cash of \$92,264, which is partially due to the timing of payments made. Intergovernmental receivable increased \$32,175 mostly due to an increase in federal grants receivable. Capital assets increased \$19,363 through the restatement to record salvage value of \$22,619 less depreciation expense. Liabilities consisting of accounts payable increased \$40,468 due to the timing of payments and net position increased \$103,334 over fiscal year 2011.

The Academy is dependent on grants and foundation money to fund operations.



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Table 2 shows the changes in net position for the fiscal year ended June 30, 2013, 2012 and 2011, as well as a listing of revenues and expenses.

**Table 2**  
**Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Revenues</b>			
Operating Revenues	\$ 895,975	\$ 461,544	\$ 611,645
Non-Operating Revenues	<u>83,853</u>	<u>36,926</u>	<u>64,424</u>
<b>Total Revenues</b>	<u>979,828</u>	<u>498,470</u>	<u>676,069</u>
<b>Operating Expenses</b>	<u>829,803</u>	<u>417,755</u>	<u>566,343</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 150,025</u>	<u>\$ 80,715</u>	<u>\$ 109,726</u>

The Academy's activities consist of enterprise activity. Community schools receive no support from taxes, the State Foundation Program is the primary support for the Academy's students.

Revenue from foundation payments increased more than \$434,000 from fiscal year 2012 in addition to an increase federal grant revenue for an increase in total revenues of just over \$481,000. Expenses increased \$412,000 over fiscal year 2012. These increases in activity are due to a substantial increase in enrollment which went from 70.34 FTEs in fiscal year 2012 to 152.10 in fiscal year 2013.

Revenue from foundation payments decreased over \$150,000 from fiscal year 2011 due to a decrease in enrollment. The expiration of the SFSF grant contributed to a decrease in grant revenue of nearly \$27,500.

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**Capital Assets**

At the end of fiscal year 2013, the Academy had invested \$46,648 in furniture and equipment. Table 3 shows the net capital assets for fiscal years 2013, 2012 and 2011.

**Table 3**  
**Capital Assets (Net)**

	2013	Restated 2012	2011
Improvements	\$ 0	\$ 9,567	\$ 9,670
Furniture and Equipment	46,648	48,762	29,296
Totals	\$ 46,648	\$ 58,329	\$ 38,966

Depreciation of \$2,114 and net disposals of \$9,567 decreased capital assets by \$11,681 in fiscal year 2013.

The \$19,363 increase in capital assets in fiscal year 2012 from fiscal year 2011 is due to the restatement to record salvage value of \$22,619 less depreciation expense of \$3,256 for the fiscal year.

See Note 6 to the basic financial statements for more information.

**Contacting the Academy's Management**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Academy's finances and to show the Academy's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer, at Lorain K-12 Digital Academy, 2350 Pole Avenue, Lorain, OH 44052.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Statements of Net Position*  
*June 30, 2013 and June 30, 2012*

	2013	Restated 2012
<b>Assets</b>		
<i>Current assets:</i>		
Equity in pooled cash and cash equivalents	\$ 837,670	\$ 664,553
Intergovernmental receivables	22,288	32,175
<i>Total current assets</i>	<u>859,958</u>	<u>696,728</u>
<i>Noncurrent assets:</i>		
Capital assets (Net of accumulated depreciation)	46,648	58,329
<i>Total assets</i>	<u>906,606</u>	<u>755,057</u>
<b>Liabilities</b>		
<i>Current liabilities:</i>		
Accounts Payable	45,929	44,405
<i>Total current liabilities</i>	<u>45,929</u>	<u>44,405</u>
<b>Net Position</b>		
Net investment in capital assets	46,648	58,329
Restricted for other purposes	37,021	86,506
Unrestricted	<u>777,008</u>	<u>565,817</u>
<i>Total net position</i>	<u>\$ 860,677</u>	<u>\$ 710,652</u>

See accompanying notes to the basic financial statements.

**Lorain K-12 Digital Academy**

**Lorain County, Ohio**

*Statements of Revenues, Expenses, and Changes in Net Position*

*For the Fiscal Years Ended June 30, 2013 and June 30, 2012*

	2013	2012
<b>Operating revenues</b>		
Foundation payments	\$ 895,586	\$ 458,124
Tuition	0	3,314
Other	389	106
<i>Total operating revenues</i>	<u>895,975</u>	<u>461,544</u>
<b>Operating expenses</b>		
Purchased services	716,931	328,460
Materials and supplies	77,474	67,812
Depreciation	2,114	3,256
Other	33,284	18,227
<i>Total operating expenses</i>	<u>829,803</u>	<u>417,755</u>
<i>Operating income (loss)</i>	66,172	43,789
<b>Non operating revenues (expenses)</b>		
Grants	83,853	36,926
<i>Change in net position</i>	150,025	80,715
<i>Net position at beginning of year</i>	710,652	607,318
<i>Restatement of Capital Assets (See Note 2 M)</i>	0	22,619
<i>Net position at the end of the year</i>	<u>\$ 860,677</u>	<u>\$ 710,652</u>

See accompanying notes to the basic financial statements.

**Lorain K-12 Digital Academy**  
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*Statements of Cash Flows*  
For the Fiscal Years Ended June 30, 2013 and June 30, 2012

	2013	2012
<b>Increase (decrease) in cash and cash equivalents</b>		
<b>Cash flows from operating activities:</b>		
Cash received from foundation payments	\$ 895,966	\$ 457,744
Other revenues	389	3,420
Cash payments for goods and services	(816,598)	(374,031)
<i>Net cash provided by (used for) operating activities</i>	<u>79,757</u>	<u>87,133</u>
<b>Cash flows from non-capital financing activities:</b>		
Grants received	<u>93,360</u>	<u>5,131</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	173,117	92,264
<i>Cash and cash equivalents at beginning of year</i>	<u>664,553</u>	<u>572,289</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 837,670</u>	<u>\$ 664,553</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>		
Operating income (loss)	\$ 66,172	\$ 43,789
Depreciation	2,114	3,256
Loss on disposal of assets	9,567	0
Adjustments:		
(Increase) decrease in assets:		
Intergovernmental receivable	380	(380)
Increase (decrease) in liabilities:		
Accounts payable	<u>1,524</u>	<u>40,468</u>
<i>Total adjustments</i>	<u>13,585</u>	<u>43,344</u>
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 79,757</u>	<u>\$ 87,133</u>

See accompanying notes to the basic financial statements.

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**Lorain County, Ohio**  
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**Note 1 – Description of the Academy and Reporting Entity**

The Lorain K-12 Digital Academy (the "Academy") is a nonprofit corporation established pursuant to the Ohio Revised Code Chapters 1702 and 3314 to address the needs of students in kindergarten through the twelfth grade. The Academy is nonsectarian in its programs, admission policies, employment practices, and all other operations. The Academy may sue and be sued, acquire facilities as needed, and contract for any services necessary for the operation of the Academy. The Academy is considered a component unit of the Lorain City School District (the "Sponsor") for reporting purposes, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61.

The Academy is an innovative initiative that is a cooperative effort with Lorain City Schools. It is a conversion community school sponsored by the Lorain City School District. Furthermore, the Academy uses the services of the Tri-Rivers Educational Computer Association (TRECA) and the TRECA Digital Academy to assist with overall programming and operations. The Academy uses the latest technology to reach a diverse student population. This population includes, but is not limited to home schoolers, children with special physical and mental needs, students removed from the classroom for discipline concerns, students who need an alternative to the traditional classroom including religious reasons, and students within the district that desire a specific course not currently offered. Enrollment is limited to students within the attendance area of the Lorain City School District.

The Academy was approved for sponsorship for the 2008-2009 academic year through an amendment to the original agreement after the merging of the Lorain K-8 Digital Academy, Lorain Elementary Digital Academy and the Lorain Alternative Academy. The Academy was approved for continuing sponsorship under a resolution on August 26, 2009 with the Sponsor for a period of five years ending August 26, 2014. The Sponsor has designated three members of the community to represent the Sponsor in the occupants' official capacities as members of the Academy's Board of Directors. The individuals who hold such office with the Sponsor shall be formally instructed by the Sponsor that, as directors of the Academy, they are to represent the Sponsor and its interests. From time to time in its discretion, the Sponsor may substitute other administrative positions for those previously designated for this purpose.

Pursuant to the Sponsor's authority under section 3314.08(G) of the Ohio Revised Code to provide the Academy with services, the Sponsor shall be the fiscal agent of the Academy and shall direct the Sponsor's treasurer to serve as the Academy's fiscal officer. The Sponsor shall evaluate the performance of the Academy according to the standards set forth in the Assessment and Accountability Plan. The Sponsor is not legally responsible for the final outcome of the community school.

A service contract exists between the Academy and the Sponsor in which the Sponsor agrees to provide to the Academy professional, technical support and other services upon the Academy's request, but is subject to the availability of such services. The price for services rendered by the Sponsor to the Academy is established as the Sponsor's "cost of providing such services including, without limitation, employee salaries and fringe benefits, equipment costs if any, and administrative overhead." All personnel, excluding TRECA, providing services to the Academy

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on behalf of the Sponsor under the service contract are considered employees of the Sponsor, and the Sponsor shall be solely responsible for all payroll functions.

**Note 2 – Summary of Significant Accounting Policies**

The more significant of the Academy's accounting policies are described below.

***A. Basis of Presentation***

The Academy's basic financial statements consist of statements of net position, statements of revenues, expenses and changes in net position, and statements of cash flows.

Enterprise reporting focuses on the determination of the change in net position, financial position and cash flows.

***B. Measurement Focus***

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the statements of net position. The statements of revenues, expenses and changes in net position present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statements of cash flows provide information about how the Academy finances and meets the cash flow needs of its enterprise activities.

***C. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the basic financial statements. The Academy's basic financial statements are prepared using the accrual basis of accounting.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Academy must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses are recognized at the time they are incurred.



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***D. Budgetary Process***

The Academy shall operate in compliance with a bi-annual budget which must be reviewed and approved by the Academy's Board of Directors. The Academy must maintain financial records in a similar manner to those records of the Sponsor. The Academy complies with the policies and procedures regarding internal financial controls which are apparent under the standards. Also, the Auditor of State provides financial policy and procedure guidance to the Academy.

***E. Cash and Cash Equivalents***

Cash held by the Academy is reflected as "Equity in pooled cash and cash equivalents" on the statements of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

***F. Capital Assets***

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their fair market value on the date donated. The Academy maintains a capitalization threshold of five thousand dollars. The Academy does not have any infrastructure. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method. Improvements are depreciated over 15 years and furniture and equipment are depreciated over 5 to 20 years. All capital assets have been determined to have a 5 percent salvage value.

***G. Net Position***

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Academy first applies restricted resources when an expense is incurred for which both restricted and unrestricted net position is available. Net position restricted for other purposes are primarily for student instruction.

***H. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activities. For the Academy, these revenues are payments from the State Foundation Program. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activities of the Academy. All revenues and expenses not meeting these definitions are reported as non-operating.

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***I. Intergovernmental Revenues***

The Academy currently participates in the State Foundation Program. Revenues received from this program are recognized as operating revenues in the accounting period in which all eligibility requirements have been met.

In addition, the Academy participates in the State Education Management Information System (“EMIS”) through the Ohio Department of Education.

For fiscal year 2013, the Academy also receives revenues from the Education Jobs, IDEA-B, Title II-D, Title I and Title II-A federal grant programs.

In fiscal year 2012, the Academy received revenues from the Education Jobs, IDEA-B, Title II-D, Title I and Title II-A federal grant programs.

***J. Estimates***

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

***K. Contributions of Capital***

Contributions of capital arise from outside contributions of capital assets or from grants or outside contributions of resources restricted to capital acquisition and construction. The Academy did not receive any contributions during fiscal year 2013.

***L. Changes in Accounting Principles***

For the fiscal year ended June 30, 2013, the Academy has implemented Governmental Accounting Standard Board (GASB) Statement No. 60, “Accounting and Financial Reporting for Service Concession Arrangements,” GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34,” GASB Statement No. 62, “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,” and GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.”

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the Academy.

GASB Statement No. 61 improves guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the Academy.

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GASB Statement No. 62 incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the Academy.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. It also amends the net asset reporting requirements in GASB Statement No. 34 by incorporating deferred outflows and inflows into the definitions and renaming the residual measure as net position, rather than net assets.

***M. Restatement of Net Position***

As of July 1, 2012, the Academy changed their capital asset policy to include a salvage value on furniture and equipment. The following is the change to net position:

Net Position, June 30, 2012	\$ 688,033
Change in Capital Assets	<u>22,619</u>
Restated Net Position, July 1, 2012	<u>\$ 710,652</u>

**Note 3 - Deposits**

State statutes classify monies held by the Academy into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Academy treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts.

Protection of Academy's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio and STAR Plus);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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*For the Fiscal Years Ended June 30, 2013 and 2012*

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Custodial credit risk for deposits is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of Academy cash and deposits is provided by the Federal Deposit Insurance Corporation, as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all uninsured public deposits. The face value of the pooled collateral must equal at least 105% of uninsured public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Custodial credit risk for an investment is the risk that in the event of failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. These securities, held by the counterparty and not in the Academy's name, must be obligations of or guaranteed by the United States and mature or be redeemable within five years of the date of the related repurchase agreement. The Academy's investment in repurchase agreement is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Academy. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of the securities subject to a repurchase agreement by 2%. The Academy's policy is to invest money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

### ***Deposits***

At fiscal year end June 30, 2013, the carrying value of the Academy's deposits and the bank balances of the deposits totaled \$837,670. \$250,000 of the bank balance was covered by depository insurance and \$587,670 was uninsured and uncollateralized.

At fiscal year end June 30, 2012, the carrying value of the Academy's deposits totaled \$664,553 and the bank balances of the deposits totaled \$664,759. All of the bank balance was covered by federal depository insurance.

Although the securities serving as collateral were held by the pledging institution in the pledging institution's name, and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Academy to a successful claim by the FDIC.

Beginning January 1, 2013, noninterest-bearing accounts are no longer fully insured. Instead, time and demand accounts are insured up to a coverage limit of \$250,000, each at each separate financial institution.

Deposits in interest-bearing accounts were insured by the Federal Deposit Insurance Corporation ("FDIC") up to a coverage limit of \$250,000 per financial institution through December 31, 2012. Insurance on deposits in noninterest-bearing accounts was unlimited through December 31, 2012.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
For the Fiscal Years Ended June 30, 2013 and 2012

**Note 4 – Charter School Funding**

On October 26, 2006, the Ohio Supreme Court ruled that publicly funded, privately operated community (i.e. charter) schools are constitutional.

**Note 5 - Receivables**

Intergovernmental receivables at June 30, 2013 and 2012 consisted of \$22,288 and \$32,175, respectively in intergovernmental grants.

**Note 6 – Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Restated Balance 6/30/12	Additions	Disposals	Balance 6/30/2013
<i>Capital Assets Being Depreciated</i>				
Improvements	\$ 14,000	\$ 0	\$ (14,000)	\$ 0
Furniture and Equipment	429,989	0	0	429,989
	443,989	0	(14,000)	429,989
<i>Accumulated Depreciation</i>				
Improvements	(4,433)	0	4,433	0
Furniture and Equipment	(381,227)	(2,114)	0	(383,341)
	(385,660)	(2,114)	4,433	(383,341)
Capital Assets, Net	<u>\$ 58,329</u>	<u>\$ (2,114)</u>	<u>\$ (9,567)</u>	<u>\$ 46,648</u>

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance 6/30/11	Additions	Disposals	Restatement	Balance 6/30/2012
<i>Capital Assets Being Depreciated</i>					
Improvements	\$ 14,000	\$ 0	\$ 0	\$ 0	\$ 14,000
Furniture and Equipment	429,989	0	0	0	429,989
	443,989	0	0	0	443,989
<i>Accumulated Depreciation</i>					
Improvements	(4,330)	(933)	0	830	(4,433)
Furniture and Equipment	(400,693)	(2,323)	0	21,789	(381,227)
	(405,023)	(3,256)	0	22,619	(385,660)
Capital Assets, Net	<u>\$ 38,966</u>	<u>\$ (3,256)</u>	<u>\$ 0</u>	<u>\$ 22,619</u>	<u>\$ 58,329</u>

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2013 and 2012*

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**Note 7 – Purchased Services**

For the fiscal year ended June 30, 2013, purchased services were as follows:

Instructional Services	\$ 295,130
Other Professional and Technical Services	86,697
Other Travel and Meeting Expenses	315
Other Communications Service	294,789
Property Services	<u>40,000</u>
	<u>\$ 716,931</u>

For the fiscal year ended June 30, 2012, purchased services were as follows:

Instructional Services	\$ 126,837
Other Professional and Technical Services	19,743
Other Communications Service	<u>181,880</u>
	<u>\$ 328,460</u>

**Note 8 - Risk Management**

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2013 and 2012, the Academy was covered under commercial insurance for property, and liability coverage.

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

**Note 9 – Agreements with the Tri-Rivers Educational Computer Association**

The Academy entered into an agreement with the Tri-Rivers Educational Computer Association (“TRECA”), which is a member of the Ohio Education Computer Network established in accordance with Ohio Revised Code Section 3301.075.

The Comprehensive Services Agreement with TRECA will provide instructional/curricular, technical, and support services as well as provide student training and technical support for the fiscal 2013 and 2012 school years.

**Lorain K-12 Digital Academy**  
**Lorain County, Ohio**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Years Ended June 30, 2013 and 2012*

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**Note 10 – Contingencies**

***Grants***

The Academy received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Academy at June 30, 2013, if applicable, cannot be determined at this time.

**Note 11 - State Foundation Funding**

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted annually to ensure the schools are reporting accurate student enrollment data to the State, upon which state foundation funding is calculated. Adjustments to the state funding received during fiscal year 2013 have not been calculated as of the audit date and will be included in the financial activity for fiscal year 2014. The Academy was reviewed and no significant errors were found in enrollment, withdrawals, and attendance.

**Note 12 - Fiscal Agent**

The Academy utilizes the services of the Lorain City School District Treasurer as their fiscal officer. The Academy does not directly pay the Treasurer; however, it does reimburse Lorain City School District for the services.





# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lorain K-12 Digital Academy  
Lorain County  
2350 Pole Avenue  
Lorain, Ohio 44052

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Lorain K-12 Digital Academy, Lorain County, (the Academy), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated February 28, 2014.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Academy's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Academy's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Academy's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Academy's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Academy's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 28, 2014



# Dave Yost • Auditor of State

## Independent Accountants' Report on Applying Agreed-Upon Procedure

Lorain K-12 Digital Academy  
Lorain County  
2350 Pole Avenue  
Lorain, Ohio 44052

To the Board of Directors:

Ohio Rev. Code Section 117.53 states "the auditor of state shall identify whether the school district or community school has adopted an anti-harassment policy in accordance with Section 3313.666 of the Revised Code. This determination shall be recorded in the audit report. The auditor of state shall not prescribe the content or operation of any anti-harassment policy adopted by a school district or community school."

Accordingly, we have performed the procedure enumerated below, which was agreed to by the Board, solely to assist the Board in evaluating whether the Lorain K-12 Digital Academy (the Academy) has updated its anti-harassment policy in accordance with Ohio Rev. Code Section 3313.666. Management is responsible for complying with this requirement. This agreed-upon procedure engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of this procedure is solely the responsibility of the Board. Consequently; we make no representation regarding the sufficiency of the procedure described below either for the purpose for which this report has been requested or for any other purpose.

We noted the Academy amended its anti-harassment policy at its meeting on June 11, 2013 to include prohibiting harassment, intimidation, or bullying of any student "on a school bus" or by an "electronic act".

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the anti-harassment policy. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Directors and the Academy's sponsor and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

February 28, 2014

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# Dave Yost • Auditor of State

**LORAIN K-12 DIGITAL ACADEMY**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MARCH 27, 2014**